

**Erlanger-Elsmere
Independent School District**

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018

Erlanger-Elsmere Independent School District

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2018

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Erlanger-Elsmere Independent School District

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2018

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**Erlanger-Elsmere
Independent School District**

District Officials

June 30, 2018

Superintendent

Kathy Burkhardt

School Board Members

Jeff Miller- Chair
Sarah Shackelford - Vice Chair
Robin Cooper
John Christiansen
Tom Luken

INDEPENDENT AUDITOR'S REPORT

**To the Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Erlanger-Elsmere Independent School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, including *Appendix I- Audit Extension Request* and *Appendix II- Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Erlanger-Elsmere School District as of June 30, 2018 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note I to the financial statements, effective July 1, 2017, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinions are not modified with respect to this matter.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4–8 and the budgetary comparison information and pension information on pages 50-53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

-Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Erlanger-Elsmere Independent School District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018 on our consideration of Erlanger-Elsmere Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Erlanger-Elsmere Independent School District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.

Erlanger, Kentucky

October 10, 2018

**ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Management's Discussion and Analysis

As management of the Erlanger-Elsmere Independent School District, we offer readers of the Erlanger-Elsmere Independent School District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

- The beginning cash balance for the District was \$10,595 thousand and the ending balance is \$9,523 thousand. Cash decreased primarily due to the construction project expenditures at Howell Elementary.
- A concerted effort, focused on purchasing in the areas of supplies, food, and travel, resulted in several economies due to changed management strategies and current economic conditions.
- Fiscal year 2018 capital asset additions totaled \$3,301 thousand, primarily related to the Howell Elementary construction project.
- The District's on-behalf payments from the state were \$7,024 thousand in revenues and expenditures in fiscal year 2018, compared to \$5,123 thousand in fiscal year 2017.
- The District salaries increased approximately \$360 thousand in 2018. Salaries increased due to the addition of new positions and a pay rate increase of 1% plus step increases in fiscal year 2017.
- The General Fund had \$24,678 thousand in revenue, which primarily consisted of state program monies (SEEK), and local property, utility and motor vehicle taxes. Excluding interfund transfers, there was \$24,007 thousand in General Fund expenditures for the fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education's (KDE) stringent compliance regulations. The District repaid long term bond debt of \$1,426 thousand during fiscal year 2018.
- State law requires Districts to update a priority list of construction and renovation needs, called a local facilities plan. The document guides the allocation of School Facilities Construction Commission dollars. The current District Facilities Plan was last updated in fiscal year 2016.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Erlanger-Elsmere Independent School District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Erlanger-Elsmere Independent School District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The only proprietary fund is our food service operation. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 18-49 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$855 thousand at the close of the 2018 fiscal year.

The largest portion of the Districts' net position reflects its investment in capital assets; less any related debt used to acquire those assets that are still outstanding. The District's uses these capital

assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position

| | | (Restated) |
|--|---------------------|-----------------------|
| Assets | 2018 | 2017 |
| Current & other assets | \$ 10,381,016 | \$ 12,176,046 |
| Noncurrent assets | 22,801,664 | 20,129,937 |
| Deferred outflows of resources | 4,130,122 | 1,888,173 |
| Total Assets and Deferred Outflows of Resources | 37,312,802 | 34,194,156 |
| Liabilities | | |
| Current liabilities | 3,040,195 | 2,546,825 |
| Long-term liabilities | 34,149,966 | 24,603,084 |
| Deferred inflows of resources | 977,909 | - |
| Total Liabilities and Deferred Inflows of Resources | 38,168,070 | 27,149,909 |
| Net Position | | |
| Net investment in capital assets | 5,349,454 | 1,251,236 |
| Restricted | 1,513,533 | 4,975,679 |
| Unassigned fund balance | (7,718,255) | (7,498,608) |
| Total Net Position | \$ (855,268) | \$ (1,271,693) |

The following is a significant transaction that has had an impact on the Statement of Net Position:

- The District acquired capital asset additions of \$3,301 thousand.

Comments on Budget Comparisons

- The District's total general fund revenue for the fiscal year ended June 30, 2018, net of equipment sale proceeds, were \$24,678 thousand.
- General fund budget compared to actual revenue varied slightly from line item to line item excluding on-behalf payments, with the ending balance being about \$292 thousand over budget (favorable variance) or approximately 0.2%. The balance of revenues favorable variance is due to \$6,127 thousand in state revenues that result from on-behalf payments that were not budgeted for fiscal year 2018.
- The total cost of all programs and services was \$24,007 thousand.
- General fund budget expenditures to actual varied significantly unfavorable in instruction \$3,307 thousand. This resulted primarily from on-behalf payment expenditures of \$6,127 that were not budgeted as additional expenditures. Plant operations closed with a favorable variance of \$2,485 thousand, due to incurring less repair, maintenance, and utility costs than the amounts that were budgeted. Additionally, contingency expenses closed with a favorable variance of \$519 thousand as it was not needed. Overall, expenditures had a \$5,823 thousand favorable variance excluding the effect of not budgeting the state on-behalf expenditures.

The following table presents a summary of revenue and expenditures of the District's governmental funds for the fiscal year ended June 30, 2018.

| | June 30, 2018 | June 30, 2017 |
|-----------------------------------|--------------------------|--------------------------|
| Revenues and Other Sources | | |
| Local revenue sources | \$ 10,063,312 | \$ 9,803,978 |
| State revenue sources | 17,405,549 | 15,262,064 |
| Federal revenue sources | 2,250,119 | 3,072,918 |
| Interest | 23,718 | 26,388 |
| Bond sale proceeds | - | 5,273,667 |
| Total Revenues | \$ 29,742,698 | \$ 33,439,015 |
| Expenses | | |
| Instruction | \$ 18,178,608 | \$ 16,003,423 |
| Student support services | 1,252,434 | 1,459,823 |
| Instructional support | 844,012 | 1,539,980 |
| District administration | 1,815,738 | 1,861,783 |
| School administration | 1,638,221 | 1,510,666 |
| Business support | 409,418 | 385,003 |
| Plant operations | 1,938,770 | 1,896,200 |
| Student transportation | 570,032 | 432,268 |
| Community support | 462,209 | 375,880 |
| Facility acquisition | 3,002,129 | 936,470 |
| Other (debt service) | 1,922,200 | 1,610,949 |
| Total Expenses | \$ 32,033,771 | \$ 28,012,445 |

General Fund Revenue

The majority of the revenues were derived from local taxes and state funding, about 34% and 59% respectively.

General Fund Budget Allocation

Site Based Decision Making Councils expended approximately 6% for regular instruction of the general fund budget. The remaining budget was expended primarily for support services.

School Support

School Support Services accounts for approximately 12% of the school level expenditures; this includes School Administration and Student Instructional support.

Central Support

Central support services expenditures account for approximately 21% of the General Fund budget, and consists of transportation, maintenance & operations, central office administrative functions and debt service.

Recognition of GASB 75 – Other Post-Employment Benefits

As of June 30, 2018, the District is required, by Governmental Accounting Standards Board Statement No. 75, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System's (CERS) and the Kentucky Teachers' Retirement System's (KTRS) other post-employment benefits (OPEB) plans. Due to this requirement, the 2017 Statement of Net Position on page 4 was restated by (\$8,315,940) to include the balance of the net pension liability at June 30, 2017. The net pension and OPEB liability, the deferred outflow of resources, and the deferred inflow of resources on the Statement of Net Position at June 30, 2018 are a function of this required reporting. Detailed information on this pension recognition can be found in Note I in the Notes to the Financial Statements.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$519 thousand in contingency (2.2%). The beginning cash balance for the fiscal year is \$8,818 thousand.

Questions regarding this report should be directed to the Superintendent (859) 727-2009 or to, Director of Financial Services (859) 727-2009 or by mail at 500 Graves Avenue, Erlanger, KY 41018.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2018

| | Primary Government | | |
|--|---------------------|---------------------|---------------------|
| | Governmental | Business-type | Total |
| Assets | Activities | Activities | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 8,818,046 | \$ 705,158 | \$ 9,523,204 |
| Inventory | - | 36,739 | 36,739 |
| Accounts receivable | | | |
| Taxes - current | 471,228 | - | 471,228 |
| Taxes - delinquent | 10,677 | - | 10,677 |
| Accounts receivable - other | 82,872 | - | 82,872 |
| Intergovernmental - state | 33,089 | - | 33,089 |
| Intergovernmental - indirect federal | 182,382 | 40,825 | 223,207 |
| Total Current Assets | 9,598,294 | 782,722 | 10,381,016 |
| Noncurrent Assets | | | |
| Capital assets | 40,512,779 | 1,213,202 | 41,725,981 |
| Less: accumulated depreciation | (17,953,335) | (970,982) | (18,924,317) |
| Total Noncurrent Assets | 22,559,444 | 242,220 | 22,801,664 |
| Total Assets | 32,157,738 | 1,024,942 | 33,182,680 |
| Deferred Outflows of Resources | | | |
| Deferred outflows, pensions and post-employment benefit | 3,523,806 | 606,316 | 4,130,122 |
| Total Assets and Deferred Outflows of Resources | 35,681,544 | 1,631,258 | 37,312,802 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 981,693 | 719 | 982,412 |
| Benefits payable | 60,499 | - | 60,499 |
| Sick leave payable | 25,332 | - | 25,332 |
| Deferred revenue | 118,950 | - | 118,950 |
| Current portion of bond obligations | 1,380,727 | - | 1,380,727 |
| Current portion of capital lease obligations | 51,324 | - | 51,324 |
| Interest payable | 420,951 | - | 420,951 |
| Total Current Liabilities | 3,039,476 | 719 | 3,040,195 |
| Noncurrent Liabilities: | | | |
| Noncurrent portion of bond obligations | 15,900,001 | - | 15,900,001 |
| Noncurrent portion of capital lease obligations | 120,158 | - | 120,158 |
| Net pension and post-employment benefits liability | 16,148,236 | 1,831,484 | 17,979,720 |
| Accrued sick leave | 150,087 | - | 150,087 |
| Total Noncurrent Liabilities | 32,318,482 | 1,831,484 | 34,149,966 |
| Total Liabilities | 35,357,958 | 1,832,203 | 37,190,161 |
| Deferred Inflows of Resources | | | |
| Deferred inflows, pensions and post-employment benefits | 827,682 | 150,227 | 977,909 |
| Total Liabilities and Deferred Inflows of Resources | 36,185,640 | 1,982,430 | 38,168,070 |
| Net Position | | | |
| Net investment in capital assets | 5,107,234 | 242,220 | 5,349,454 |
| Restricted for: | | | |
| Purchase obligations | 1,437,113 | - | 1,437,113 |
| Capital projects | 659,515 | - | 659,515 |
| Special revenue - local projects | 10,297 | - | 10,297 |
| Food service | - | (593,392) | (593,392) |
| Unrestricted | (7,718,255) | - | (7,718,255) |
| Total Net Position | \$ (504,096) | \$ (351,172) | \$ (855,268) |

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

| Functions/Programs: | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|---------------------------------------|----------------------|-------------------------|--|--|--|-----------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Instruction | \$ 19,126,611 | \$ - | \$ 2,221,171 | \$ - | \$ (16,905,440) | \$ - | \$ (16,905,440) |
| Support services: | | | | | | | |
| Student support | 1,218,125 | - | 248,065 | - | (970,060) | - | (970,060) |
| Instruction staff | 919,353 | - | 194,151 | - | (725,202) | - | (725,202) |
| District administrative | 1,834,344 | - | - | - | (1,834,344) | - | (1,834,344) |
| School administrative | 1,795,756 | - | - | - | (1,795,756) | - | (1,795,756) |
| Business | 481,280 | - | - | - | (481,280) | - | (481,280) |
| Plant operation and maintenance | 2,244,662 | - | 1,131 | - | (2,243,531) | - | (2,243,531) |
| Student transportation | 611,565 | - | - | - | (611,565) | - | (611,565) |
| Community service activities | 471,964 | - | 415,764 | - | (56,200) | - | (56,200) |
| Interest on long-term debt | 464,642 | - | - | 1,497,565 | 1,032,923 | - | 1,032,923 |
| Total Governmental Activities | 29,168,302 | - | 3,080,282 | 1,497,565 | (24,590,455) | - | (24,590,455) |
| Business-Type Activities: | | | | | | | |
| Food service | 2,351,953 | 456,491 | 1,715,732 | - | - | (179,730) | (179,730) |
| Total Business-Type Activities | 2,351,953 | 456,491 | 1,715,732 | - | - | (179,730) | (179,730) |
| Total Primary Government | \$ 31,520,255 | \$ 456,491 | \$ 4,796,014 | \$ 1,497,565 | (24,590,455) | (179,730) | (24,770,185) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 8,244,382 | - | 8,244,382 |
| Motor vehicle taxes | | | | | 657,935 | - | 657,935 |
| Utility taxes | | | | | 890,910 | - | 890,910 |
| Other taxes | | | | | 23,102 | - | 23,102 |
| Investment earnings | | | | | 23,718 | - | 23,718 |
| State and federal grants | | | | | 15,077,821 | - | 15,077,821 |
| Miscellaneous/other | | | | | 227,484 | 41,258 | 268,742 |
| Total General Revenues | | | | | 25,145,352 | 41,258 | 25,186,610 |
| Change in net position | | | | | 554,897 | (138,472) | 416,425 |
| Net position - Beginning | | | | | 6,916,512 | 127,735 | 7,044,247 |
| <i>Prior period adjustment - OPEB</i> | | | | | <i>(7,975,505)</i> | <i>(340,435)</i> | <i>(8,315,940)</i> |
| Net position - Ending | | | | | \$ (504,096) | \$ (351,172) | \$ (855,268) |

The accompanying notes are an integral part of these financial statements.

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2018 |
|--|

| | 01 | 20-22 | 360 | 320 | |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| | General | Special | Construction | Other | Total |
| Assets | Fund | Revenue | Fund | Governmental | Governmental |
| | | Funds | | Funds | Funds |
| Cash and (overdraft) | \$ 5,820,219 | \$ (46,574) | \$ 2,384,886 | \$ 659,515 | \$ 8,818,046 |
| Accounts receivable: | | | | | |
| Taxes - current | 471,228 | - | - | - | 471,228 |
| Taxes - delinquent | 10,677 | - | - | - | 10,677 |
| Accounts receivable | 82,872 | - | - | - | 82,872 |
| Intergovernmental - state | 33,089 | - | - | - | 33,089 |
| Intergovernmental - federal | 6,404 | 175,978 | - | - | 182,382 |
| Other current assets | - | - | - | - | - |
| Total Assets | \$ 6,424,489 | \$ 129,404 | \$ 2,384,886 | \$ 659,515 | \$ 9,598,294 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 33,763 | \$ 157 | \$ 947,773 | \$ - | \$ 981,693 |
| Benefits payable | 60,499 | | | | 60,499 |
| Sick leave payable | 25,332 | - | - | - | 25,332 |
| Deferred revenue | - | 118,950 | - | - | 118,950 |
| Total Liabilities | 119,594 | 119,107 | 947,773 | - | 1,186,474 |
| Fund Balances: | | | | | |
| Restricted for: | | | | | |
| Accrued sick leave | 150,087 | - | - | - | 150,087 |
| Restricted for: | | | | | |
| Special revenue - local projects | - | 10,297 | - | - | 10,297 |
| Purchase obligations | - | - | 1,437,113 | - | 1,437,113 |
| Capital project funds | - | - | - | 659,515 | 659,515 |
| Debt service funds | - | - | - | - | - |
| Unassigned | 6,154,808 | - | - | - | 6,154,808 |
| Total Fund Balances | 6,304,895 | 10,297 | 1,437,113 | 659,515 | 8,411,820 |
| Total Liabilities and Fund Balances | \$ 6,424,489 | \$ 129,404 | \$ 2,384,886 | \$ 659,515 | \$ 9,598,294 |

Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Position

| | |
|---|---------------------|
| Total Fund Balance per Fund Financial Statements | \$ 8,411,820 |
| Capital asset are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position | 22,559,444 |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and are, therefore, not reportable in the funds: | |
| Deferred outflow of resources | 3,523,806 |
| Deferred inflow of resources | (827,682) |
| Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, net pension obligation, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position. | (34,171,484) |
| Net position for governmental activities | <u>\$ (504,096)</u> |

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

| | General Fund | Special Revenue | Construction Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------|----------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| From local sources | | | | | |
| Taxes: | | | | | |
| Property | \$ 7,785,830 | \$ - | \$ - | \$ 486,972 | \$ 8,272,802 |
| Motor vehicle | 657,935 | - | - | - | 657,935 |
| Utilities | 890,910 | - | - | - | 890,910 |
| Other | 23,102 | - | - | - | 23,102 |
| Earnings on investments | 23,718 | - | - | - | 23,718 |
| Other local revenues | 218,563 | - | - | - | 218,563 |
| Intergovernmental - state | 8,772,638 | 1,008,419 | - | 600,039 | 10,381,096 |
| Intergovernmental - state on behalf | 6,126,927 | - | - | 897,526 | 7,024,453 |
| Intergovernmental - indirect federal | - | 1,800,939 | - | - | 1,800,939 |
| Intergovernmental - direct federal | 178,256 | 270,924 | - | - | 449,180 |
| Total Revenues | 24,677,879 | 3,080,282 | - | 1,984,537 | 29,742,698 |
| Expenditures | | | | | |
| Instruction | 15,736,959 | 2,441,649 | - | - | 18,178,608 |
| Support services: | | | | | |
| Student support | 1,004,369 | 248,065 | - | - | 1,252,434 |
| Instruction staff | 779,500 | 64,512 | - | - | 844,012 |
| District administrative | 1,815,738 | - | - | - | 1,815,738 |
| School administrative | 1,638,221 | - | - | - | 1,638,221 |
| Business | 409,418 | - | - | - | 409,418 |
| Plant operation and maintenance | 1,938,770 | - | - | - | 1,938,770 |
| Student transportation | 568,901 | 1,131 | - | - | 570,032 |
| Facilities acquisition and construction | - | - | 3,002,129 | - | 3,002,129 |
| Community service activities | 46,445 | 415,764 | - | - | 462,209 |
| Other(debt service) | 68,767 | - | - | 1,853,433 | 1,922,200 |
| Total Expenditures | 24,007,088 | 3,171,121 | 3,002,129 | 1,853,433 | 32,033,771 |
| Excess (deficiency) of revenues over (under) expenditures | 670,791 | (90,839) | (3,002,129) | 131,104 | (2,291,073) |
| Other Financing Sources (Uses) | | | | | |
| Operating transfers in | - | 174,905 | - | 903,278 | 1,078,183 |
| Operating transfers (out) | (45,266) | (129,639) | - | (903,278) | (1,078,183) |
| Proceeds from sale of fixed assets | 8,921 | - | - | - | 8,921 |
| Total Other Financing Sources (Use) | (36,345) | 45,266 | - | - | 8,921 |
| Net Change in Fund Balances | 634,446 | (45,573) | (3,002,129) | 131,104 | (2,282,152) |
| Fund Balances - Beginning | 5,670,449 | 55,870 | 4,439,242 | 528,411 | 10,693,972 |
| Fund Balances - Ending | \$ 6,304,895 | \$ 10,297 | \$ 1,437,113 | \$ 659,515 | \$ 8,411,820 |

The accompanying notes are an integral part of these financial statements.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2018 |
|---|

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|-------------------|
| Net change in fund balances - total governmental funds | \$ (2,282,152) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay of \$3,300,721 was more than depreciation of \$691,664 in the current period. | 2,609,057 |
| Governmental funds report District pension contributions as expenditures in the current period. However, in the statement of activities, the cost of pension benefits earned net of employer contributions is reported as a pension expense. Cost of benefits earned - pensions and other post employment benefits | (1,174,916) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This year's amount is \$0 and last year's amount was \$28,420. | (28,420) |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Principal payments on long term debt | 1,426,491 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the increase in non-current portion of accrued sick leave of \$26,229 and a decrease in accrued interest of \$31,067. | <u>4,838</u> |
| Change in net position of governmental activities | <u>\$ 554,898</u> |

The accompanying notes are an integral part of these financial statements.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT STATEMENT OF NET POSITION - PROPRIETARY FUND June 30, 2018 |
|--|

Assets
Current Assets:

| | |
|--------------------------------------|------------|
| Cash | \$ 705,158 |
| Inventory | 36,739 |
| Accounts receivable: | |
| Other | - |
| Intergovernmental - indirect federal | 40,825 |

Total Current Assets

782,722

Noncurrent Assets:

| | |
|--------------------------------|-----------|
| Capital assets | 1,213,202 |
| Less: accumulated depreciation | (970,982) |

Total Noncurrent Assets

242,220

Total Assets

1,024,942

Deferred Outflows of Resources

| | |
|---|---------|
| Deferred outflow related to pensions and other post-employment benefits | 606,316 |
|---|---------|

Total Assets and Deferred Outflows of Resources

1,631,258

Liabilities
Current Liabilities:

| | |
|------------------|-----|
| Accounts payable | 719 |
|------------------|-----|

Total Current Liabilities

719

Noncurrent Liabilities:

| | |
|--|-----------|
| Net pension and other post-employment benefits liability | 1,831,484 |
|--|-----------|

Total Liabilities

1,832,203

Deferred Inflows of Resources

| | |
|--|---------|
| Deferred inflow related to pensions and other post employment benefits | 150,227 |
|--|---------|

Total Liabilities and Deferred Inflows of Resources

1,982,430

Net Position

| | |
|-----------------------------------|-----------|
| Net investment in capital assets | 242,220 |
| Restricted - purchase obligations | - |
| Restricted - food service | (593,392) |

Total Net Position

\$ (351,172)

The accompanying notes are an integral part of these financial statements.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT STATEMENT OF REVENUES, EXPENDITURES - PROPRIETARY FUND Proprietary Fund For the Year Ended June 30, 2018 |
|--|

| | |
|--|----------------------------|
| Operating Revenues | |
| Lunchroom sales | \$ 456,491 |
| Other operating revenues | 41,258 |
| Total Operating Revenues | <u>497,749</u> |
| Operating Expenses | |
| Salaries and wages | 644,514 |
| Employee benefits | 174,374 |
| Materials and supplies | 1,189,623 |
| Depreciation | 42,195 |
| Other operating expenses | 103,440 |
| Total Operating Expenses | <u>2,154,146</u> |
| Operating Income (Loss) | <u>(1,656,397)</u> |
| Nonoperating Revenues (Expenses) | |
| Federal grants | 1,267,018 |
| Donated commodities | 102,213 |
| Intergovernmental - state | 14,267 |
| Intergovernmental - state on behalf | 332,234 |
| Pension cost over actual contribution | (197,808) |
| Total nonoperating revenues (expenses) | <u>1,517,924</u> |
| Net Income (Loss) | (138,473) |
| Total Net Position - Beginning | 127,735 |
| Prior Period Adjustment - Net Effect of Other Post Employment Benefit Liability | <u>(340,435)</u> |
| Total Net Position - Ending | <u><u>\$ (351,172)</u></u> |

The accompanying notes are an integral part of these financial statements.

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS For the Year Ended June 30, 2018 |
|--|

Cash Flows From Operating Activities

Cash received from:

| | |
|------------------|------------|
| Lunchroom sales | \$ 460,145 |
| Other activities | 41,258 |

Cash paid to/for:

| | |
|------------------|-------------|
| Employees | (818,888) |
| Supplies | (1,036,690) |
| Other activities | (103,440) |

Net Cash Provided (Used) By Operating Activities
(1,457,615)
Cash Flows From Capital And Related Financing Activities

| | |
|--------------------------------------|-----------|
| Purchases of capital assets | (104,865) |
| Contributions of governmental grants | 1,609,258 |

Net Cash Provided By Capital And Related Financing Activities
1,504,393
Net Increase (Decrease) in Cash

46,778

Cash - Beginning of Period
658,380
Cash - End of Period
\$ 705,158
Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Net Income \$ (1,656,397)

Adjustments to reconcile operating income to net cash provided (used) by operating activities:

| | |
|--|---------|
| Depreciation expense | 42,195 |
| Add back donated, non-cash commodities | 102,213 |
| Change in assets and liabilities: | |
| Receivables | 3,654 |
| Inventory | 50,001 |
| Accounts payable | 719 |

Net Cash Provided (Used) by Operating Activities
\$ (1,457,615)
Schedule of Non-Cash Transaction

Donated commodities received from the federal government \$ 102,213

Pension:

| | | |
|-------------------------------------|------------------|-----------------|
| Pension expense | \$ 197,808 | |
| Less: cash amount paid for pensions | <u>(111,849)</u> | (85,959) |
| On-behalf payment | | 332,234 |
| Depreciation | | <u>(42,195)</u> |

Total Non-Cash Transactions
\$ 306,293

The accompanying notes are an integral part of these financial statements.

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| Erlanger-Elsmere Independent School District STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS June 30, 2018 |
|---|

| | Agency Fund |
|--|------------------------|
| Assets | |
| Cash and cash equivalents | \$ 225,200 |
| Accounts receivable | 7,129 |
| Total Assets | <u>232,329</u> |
| Liabilities | |
| Accounts payable | 1,091 |
| Due to student groups | 231,238 |
| Total liabilities | <u>232,329</u> |
| Net Position of Fiduciary Funds Held in Trust | <u><u>\$ -</u></u> |

The accompanying notes are an integral part of these financial statements.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Erlanger-Elsmere Independent School District is governed by the Erlanger-Elsmere Board of Education (“Board”), a five-member group which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Erlanger-Elsmere Independent School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Erlanger-Elsmere Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Erlanger-Elsmere Independent School District Finance Corporation – In 1992 the Board of Education resolved to authorize the establishment of the Erlanger-Elsmere Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2018

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment is applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types:

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2018

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund. The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used of the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expensed, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreased in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are recognized in governmental funds.

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$0.9550 per \$100 valuation for real property, \$0.9550 per \$100 for business personal property and \$0.671 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within District's boundaries, of telephone and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2018

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computer, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

| Governmental Activities | |
|----------------------------|------------------------|
| <u>Description</u> | <u>Estimated Lives</u> |
| Buildings and Improvements | 25-50 years |
| Land Improvements | 20 years |
| Technology Equipment | 5 years |
| Vehicles | 5-10 years |
| General | 15 years |
| Food Service Equipment | 10-12 years |

Inter-fund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "inter-fund receivables/payables". These amounts are eliminated in the governmental business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and the Teachers Retirement System of the Commonwealth of Kentucky (KTRS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable. In accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits – Medical Insurance Plan

For purposes of measuring the net liability for other post-employment benefits – medical insurance plan (OPEB), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (CERS) and the Teachers Retirement System of the Commonwealth of Kentucky (KTRS) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the OPEB. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable. In accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classification that comprise a hierarchy that is based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in governmental fund financial statements are as follows:

Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The district did not have any non-spendable resources at June 30, 2018.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of governments, or (b) imposed by law through constitutional provisions or enabling legislature. The district has classified sick leave, KSFCC escrow, capital projects, and debt service resources as being restricted.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the board. These amounts cannot be used for any other purpose unless the board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

This classification also includes contractual obligations to the extent that existing resources have been specifically committed for the use in satisfying those contractual requirements. The district did not have any committed resources as of June 30, 2018.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Assigned: This classification includes the amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District's manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District had assigned resources as of June 30, 2018.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balances of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use "*Restricted*" fund balance first, followed by "*Committed*" resources, and then "*Assigned*" resources, as appropriate opportunities arise, but reserves the right to selectively spend "*Unassigned*" resources first to defer the use of these other classified funds.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating Revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from fund responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2018

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end the carrying amount of the District's total cash and cash equivalents was \$11,253,359. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less. Cash and cash equivalents at June 30, 2018 consisted of the following:

| | Bank Balance | Book Balance |
|------------------|---------------------|---------------------|
| General checking | \$ 9,601,244 | \$ 9,523,204 |
| School activity | 236,621 | 225,200 |
| | <u>\$ 9,837,865</u> | <u>\$ 9,748,404</u> |

Breakdown per financial statements:

| | |
|--------------------|---------------------|
| Governmental funds | \$ 8,818,046 |
| Proprietary funds | 705,158 |
| Agency funds | 225,200 |
| | <u>\$ 9,748,404</u> |

NOTE D – INVESTMENTS

The District had no investments at June 30, 2018

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

| | Balance June 30, 2017 | Additions | Deductions | Balance June 30, 2018 |
|--|--------------------------|---------------------|------------------|--------------------------|
| Governmental Activities | | | | |
| Land | \$ 665,532 | \$ - | \$ - | \$ 665,532 |
| Land improvement | 1,235,656 | - | - | 1,235,656 |
| Buildings and improvements | 31,667,913 | - | - | 31,667,913 |
| Technology equipment | 1,848,798 | 95,298 | (481,524) | 1,462,572 |
| General equipment | 509,775 | 58,148 | - | 567,923 |
| Vehicles and machinery | 997,794 | 145,146 | (69,892) | 1,073,048 |
| Construction in progress | 838,006 | 3,002,129 | - | 3,840,135 |
| Totals at historical cost | <u>37,763,474</u> | <u>3,300,721</u> | <u>(551,416)</u> | <u>40,512,779</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | (1,135,866) | (13,563) | - | (1,149,429) |
| Buildings and improvements | (13,676,938) | (582,509) | - | (14,259,447) |
| Technology equipment | (1,848,739) | (6,854) | 481,524 | (1,374,069) |
| General equipment | (412,082) | (17,740) | - | (429,822) |
| Vehicles and machinery | (739,462) | (70,998) | 69,892 | (740,568) |
| Total accumulated depreciation | <u>(17,813,087)</u> | <u>(691,664)</u> | <u>551,416</u> | <u>(17,953,335)</u> |
| Governmental Activities Capital Assets – Net | <u>\$ 19,950,387</u> | <u>\$ 2,609,057</u> | <u>\$ -</u> | <u>\$ 22,559,444</u> |
| Business-Type Activities | | | | |
| Food service equipment | \$ 1,116,611 | \$ 104,865 | \$ (8,274) | \$ 1,213,202 |
| Construction in progress | - | - | - | - |
| Totals at historical cost | <u>1,116,611</u> | <u>104,865</u> | <u>(8,274)</u> | <u>1,213,202</u> |
| Less: accumulated depreciation | <u>(937,061)</u> | <u>(42,195)</u> | <u>8,274</u> | <u>(970,982)</u> |
| Business-Type Activities Capital Assets – Net | <u>\$ 179,550</u> | <u>\$ 62,670</u> | <u>\$ -</u> | <u>\$ 242,220</u> |

Depreciation was charged to governmental activities functions as follows:

| | |
|--|-------------------|
| Instruction | \$ 508,891 |
| Student Support Services | 524 |
| Instructional Staff Support Services | 196 |
| Direct Administration Support | 4,480 |
| School Administration Support Services | 11,353 |
| Community Services | 5,729 |
| Plant Operations & Maintenance | 103,817 |
| Student Transportation | 56,674 |
| Total Depreciation | <u>\$ 691,664</u> |

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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NOTE F – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements lease obligations represents the District's future obligation to make lease payments relating to the bonds issued by the Fiscal Court of Kenton County, Kentucky and the Erlanger-Elsmere Independent School District Financial Corporation aggregating \$ 20,994,295.

The following summarizes the original amount of each issue, the issue date and interest rates:

| | | |
|----------------------|-----------|----------------|
| 2009 Refunded | 1,465,000 | 1.00% - 3.40% |
| 2009 KISTA Refunded | 278,890 | 1.00% - 3.25% |
| 2012 Refunded | 259,000 | 1.50% - 2.45% |
| 2012 | 3,230,000 | 0.90% - 2.70% |
| 2016 - Refunded 2007 | 4,195,000 | 0.75% - 2.125% |
| 2016 - Refunded 2008 | 3,325,000 | 2.00% |
| 2017 | 5,320,000 | 2.00% - 3.50% |

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1992, the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue.

The following is a summary of the District's portion of long-term debt transactions for the year ended June 30, 2018:

| | Beginning Balance | Additions | Deductions | Ending Balance |
|----------------|----------------------|------------------|-------------|----------------------|
| Bonds | \$ 17,280,728 | \$ - | \$ - | \$ 17,280,728 |
| Capital Leases | 171,482 | - | - | 171,482 |
| Sick Leave | 123,858 | 51,561 | - | 175,419 |
| Total | <u>\$ 17,576,068</u> | <u>\$ 51,561</u> | <u>\$ -</u> | <u>\$ 17,627,629</u> |

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2018 for debt service (principle and interest) are as follows:

| Year | District Portion Erlanger-Elsmere | | KSCC Portion KSCC | | Total |
|-----------|--------------------------------------|---------------------|----------------------|---------------------|----------------------|
| | Principle | Interest | Principle | Interest | |
| 2018-2019 | \$ 681,293 | \$ 237,301 | \$ 699,434 | \$ 183,650 | \$ 1,801,678 |
| 2019-2020 | 687,459 | 223,027 | 547,542 | 167,881 | 1,625,909 |
| 2020-2021 | 702,268 | 210,017 | 557,732 | 157,690 | 1,627,707 |
| 2021-2022 | 721,051 | 195,932 | 568,949 | 146,474 | 1,632,406 |
| 2022-2023 | 729,371 | 181,228 | 580,629 | 134,793 | 1,626,021 |
| 2023-2024 | 741,654 | 166,089 | 593,346 | 122,077 | 1,623,166 |
| 2024-2025 | 668,803 | 147,936 | 436,197 | 108,208 | 1,361,144 |
| 2025-2026 | 778,639 | 132,664 | 446,361 | 98,043 | 1,455,707 |
| 2026-2027 | 797,784 | 114,363 | 457,216 | 87,189 | 1,456,552 |
| 2027-2028 | 440,276 | 95,206 | 364,724 | 75,497 | 975,703 |
| 2028-2029 | 605,634 | 85,294 | 359,366 | 65,817 | 1,116,111 |
| 2029-2030 | 279,711 | 73,868 | 315,289 | 56,565 | 725,433 |
| 2030-2031 | 240,740 | 65,476 | 324,260 | 47,594 | 678,070 |
| 2031-2032 | 251,247 | 57,773 | 333,753 | 38,100 | 680,873 |
| 2032-2033 | 260,239 | 49,733 | 314,761 | 28,732 | 653,465 |
| 2033-2034 | 279,902 | 40,885 | 145,098 | 21,515 | 487,400 |
| 2034-2035 | 288,708 | 31,368 | 151,292 | 16,582 | 487,950 |
| 2035-2036 | 302,153 | 21,263 | 157,847 | 11,287 | 492,550 |
| 2036-2037 | 305,368 | 10,688 | 164,632 | 5,762 | 486,450 |
| Total | <u>\$ 9,762,300</u> | <u>\$ 2,140,111</u> | <u>\$ 7,518,428</u> | <u>\$ 1,573,456</u> | <u>\$ 20,994,295</u> |

NOTE G – CAPITAL LEASE PAYABLE

The following is analysis of the leased property under capital lease by class:

| Classes of Property | Book value as of June 30, 2018 |
|---------------------|-----------------------------------|
| Buses | <u>\$ 185,890</u> |

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2018:

| Year Ending June 30, | 2015 Bus Lease | 2010 Bus Lease | 2011 Bus Lease | 2013 Total | Total |
|---|-------------------|-------------------|-------------------|------------------|-------------------|
| 2019 | \$ 10,404 | \$ 6,478 | \$ 23,005 | \$ 11,437 | \$ 51,324 |
| 2020 | 10,400 | | 19,148 | 11,411 | 40,959 |
| 2021 | 10,394 | - | 19,088 | 11,455 | 40,937 |
| 2022 | 10,384 | - | - | 9,518 | 19,902 |
| 2023 | 10,394 | - | - | 9,518 | 19,912 |
| 2024 | 8,828 | - | - | - | 8,828 |
| 2025 | 8,841 | - | - | - | 8,841 |
| Total minimum lease payments | 69,645 | 6,478 | 61,241 | 53,339 | 190,703 |
| Less: Amount representing interest | (7,328) | (709) | (7,022) | (4,162) | (19,221) |
| Present Value of Net Minimum Lease Payment | <u>\$ 62,317</u> | <u>\$ 5,769</u> | <u>\$ 54,219</u> | <u>\$ 49,177</u> | <u>\$ 171,482</u> |

NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District had no material commitments under operating lease agreements as of June 30, 2018.

NOTE I – RETIREMENT PLANS

The District's employees are provided with two pension plans, based on each position's college degree requirement. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification.

KENTUCKY TEACHERS' RETIREMENT SYTEM

The Kentucky Teachers' Retirement System (KTRS) consists of three plans; a Pension Fund, a Life Insurance Fund, and a Medical Insurance Fund (Other Post-Employment Benefits - OPEB).

KTRS Pension Fund

Plan Description

Teaching-certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Benefits Provided

For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

1. Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
2. Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions

Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System.

Matching contributions are made by the Commonwealth of Kentucky. These on behalf payments are reflected in the District's financial records and amounted to \$3,407,510 for 2018. The matching contributions are paid by the federal program for any salaries paid by that program. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems. The District contributed 16.105% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2018.

The District's required contributions for pension obligations for KTRS for the fiscal year ended June 30, 2018 was \$1,597,951 (composed of \$202,570 from the District and \$1,395,381 from the employees. 100% of the required contribution was contributed.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Pension Liability

At June 30, 2018, the District did not report a liability for the District's proportionate share of the net pension liability for the KTRS pension fund because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The Commonwealth's proportionate share of the KTRS net pension liability associated with the District is as follows:

| | |
|---|----------------------|
| District's proportionate share of the KTRS net pension liability associated with the District | \$ - |
| Commonwealth's proportionate share of the KTRS net pension liability associated with the District | 95,906,656 |
| Total net pension liability associated with the District | <u>\$ 95,906,656</u> |

KTRS Life Insurance Fund

Plan description

KTRS administers the Life Insurance Fund (LIF) as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The KTRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the KTRS Board of Trustees and the General Assembly.

Benefits provided

KTRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. KTRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions

In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

OPEB Liability

At June 30, 2018, the District did not report a liability for the District's proportionate share of the net OPEB liability for the KTRS Life Insurance Fund because the Commonwealth of Kentucky provides the OPEB support directly to KTRS on behalf of the District. The Commonwealth's proportionate share of the KTRS net OPEB liability for the Life Insurance Fund associated with the District is as follows:

| |
|---|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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| | |
|--|------------------|
| District's proportionate share of the KTRS net OPEB liability associated with the District | \$ - |
| Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District | 73,000 |
| Total net pension liability associated with the District | <u>\$ 73,000</u> |

KTRS Medical Insurance Fund

Plan description

In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund (MIF) is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Contributions

In order to fund the post-retirement healthcare benefit, 7.01% of the gross annual payroll of employees is contributed. 3.75% is paid by member contributions and 0.26% from Commonwealth appropriation and 3.00% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District reported a liability for the District's proportionate share of the net OPEB liability for the KTRS Medical Insurance Fund because the Commonwealth of Kentucky provided only partial support directly to KTRS on behalf of the District. The District and the Commonwealth's proportionate share of the KTRS net OPEB liability for the Medical Insurance Fund associated with the District is as follows:

| | |
|--|----------------------|
| District's proportionate share of the KTRS net OPEB liability associated with the District | \$ 6,630,000 |
| Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District | 5,416,000 |
| Total OPEB liability associated with the District | <u>\$ 12,046,000</u> |

At June 30, 2018, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2017, the District's proportion of the non-hazardous plan was 0.185946%.

Matching contributions are made by the Commonwealth of Kentucky. These on behalf payments are reflected in the District's financial records and amounted to \$263,418 for 2018. For the year ended June 30, 2018, the District recognized an OPEB expense of \$98,154 in addition to its current year contribution of \$372,917. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Non-Hazardous | |
|--|-------------------|--------------------|
| | Deferred Outflow | Deferred Inflow |
| Differences between expected and actual experience | \$ - | \$ (46,985) |
| Net difference between projected actual earnings on plan investments | - | - |
| Changes of assumptions | - | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | - |
| Contributions subsequent to the measurement date | 372,917 | - |
| | <u>\$ 372,917</u> | <u>\$ (46,985)</u> |

The District's contributions to the MIF subsequent to the measurement date of \$372,917 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Fiscal Year Ending June 30, | Net Deferral Amortization |
|-----------------------------|---------------------------|
| 2019 | \$ (9,397) |
| 2020 | (9,397) |
| 2021 | (9,397) |
| 2022 | (9,397) |
| 2023 | (9,397) |
| Thereafter | - |
| | <u>\$ (46,985)</u> |

| |
|---|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Actuarial Methods and Assumptions

The total OPEB liability for the KTRS MIF in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|---|
| Valuation Date | June 30, 2016 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of pay |
| Remaining Amortization Period | 30 years, open |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3.00% |
| Real Wage Growth | 0.50% |
| Wage Inflation | 3.50% |
| Salary Increase | 3.5-7.2%, including inflation |
| Municipal Bond Index Rate | 3.56% |
| Investment Rate of Return | 8.00% net of plan investment expense, including inflation |
| MIF Healthcare Cost Trend Rates (Pre-65) | 7.75% for FY 2017, decreasing to an ultimate rate of 5.00% by FY 2023 |
| MIF Healthcare Cost Trend Rates (Post-65) | 5.75% for FY 2017, decreasing to an ultimate rate of 5.00% by FY 2020 |
| MIF Healthcare Cost Trend Rates (Medicare Part B Premiums) | 1.02% for FY 2017, decreasing to an ultimate rate of 5.00% by FY 2029 |

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with population scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set for forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (i.e. initial per capita costs, health care costs trends, rate of plan participation, rate of plan elections, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's MIF investment consultant, are summarized in the following tables:

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
|---|

| Asset Class | KTRS - MIF Target Allocation | Long Term Expected Nominal Return |
|-----------------------------|------------------------------------|---|
| Global equity | 60.00% | 5.1% |
| High yield bonds | 10.00% | 4.3% |
| Other additional categories | 10.00% | 3.3% |
| Fixed income | 9.00% | 1.2% |
| Private equity | 5.50% | 6.6% |
| Real estate | 4.50% | 4.0% |
| Cash | 1.00% | 0.5% |
| Total | 100% | |

Discount Rates

The discount rate used to measure the total KTRS MIF OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's proportionate share of net OPEB liability to changes in the discount rate

The following table presents the District's proportionate share of the net OPEB liability for the MIF and LIF, as well as the District's proportionate share of the net OPEB liability if calculated using a discount rate that is 1-percentage-point lower (7.00%) or a discount rate that is 1-percentage-point higher (9.00%) than the current rate.

| Discount Rate | District's Proportionate Share of Net OPEB Liability | | |
|---------------|---|-----------------------|----------------------|
| | 1% Decrease 7.00% | Current Rate 8.00% | 1% Increase 9.00% |
| KTRS - MIF | \$ 7,720,873 | \$ 6,630,000 | \$ 5,722,406 |

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the District's proportionate share of the net OPEB liability for the MIF, as well as the proportionate share of the net OPEB liability if calculated using healthcare cost trend rate that that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| Healthcare cost trend rate | District's Proportionate Share of Net OPEB Liability | | |
|----------------------------|---|--------------|--------------|
| | 1% Decrease | Current Rate | 1% Increase |
| KTRS - MIF | \$ 5,552,886 | \$ 6,630,000 | \$ 7,960,843 |

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2018

COUNTY EMPLOYEES' RETIREMENT SYTEM

The County Employees' Retirement System consists of two plans; a Pension Plan and Health Insurance Fund Plan (Other Post-Employment Benefits; OPEB). All employees are classified as non-hazardous duty employees.

Pension Plan

Plan Description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

| | | |
|--------|----------------------|---|
| Tier 1 | Participation date | Before September 1, 2008 |
| | Unreduced retirement | 27 years of services or 65 years old |
| | Reduced retirement | At least 5 years of service and 55 years old At least 25 years of service and any age |
| Tier 2 | Participation date | September 1, 2008 - December 31, 2013 |
| | Unreduced retirement | At least 5 years of service and 65 years old Or 57+ and sum of service years plus age equal 87 |
| | Reduced retirement | At least 10 years of service and 60 years old |
| Tier 3 | Participation date | After December 31, 2013 |
| | Unreduced retirement | At least 5 years of service and 65 years old Or 57+ and sum of service years plus age equal 87 |
| | Reduced retirement | Not available |

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

Required pension plan contributions by the employee are based on the tier:

| | <u>Required contribution</u> |
|--------|------------------------------|
| Tier 1 | 5% |
| Tier 2 | 5% + 1% for insurance |
| Tier 3 | 5% + 1% for insurance |

Contributions

The District contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2018. The District made all required contributions for the Plan obligation for the fiscal year ended June 30, 2018 in the amount of \$693,104, of which \$523,261 was for the pension fund and \$169,843 was for the health insurance fund.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability for CERS of \$8,447,845. The net pension liability for each plan was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2017, the District's proportion was 0.14433% percent of the total CERS non-hazardous duty. For the year ended June 30, 2018, the District recognized a pension expense of \$1,131,987.

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflow of Resources</u> |
|--|--|---|
| Differences between expected and actual experience | \$ 10,478 | \$ (214,442) |
| Net difference between projected and actual earnings on plan investments | 669,059 | (564,569) |
| Changes of assumptions | 1,558,856 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 194,372 | - |
| Contributions subsequent to the measurement date | 523,261 | - |
| Total | <u>\$ 2,956,026</u> | <u>\$ (779,011)</u> |

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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The Schedule of Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments, all of which are deferred over the weighted average years of working lifetime of all plan participants (active and inactive) which is determined to be 3.50 years. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed 5 year period.

Deferred Outflows and Inflows of Resources

In FY 2018, \$2,956,026 was recognized as a deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. In FY 2018, \$779,011 was recognized as a deferred inflow of resources.

The District's contributions subsequent to the measurement date of \$523,261 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ending June 30, | Net Deferral Amortization |
|--------------------------------|------------------------------|
| 2019 | \$ 786,651 |
| 2020 | 681,345 |
| 2021 | 294,233 |
| 2022 | (108,475) |
| | <u>\$ 1,653,754</u> |

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-------------------------------|---|
| Valuation Date | June 30, 2016 |
| Experience Study | July 1, 2008 – June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | 5-year smoothed market |
| Payroll growth | 2.00% |
| Inflation | 2.30% |
| Salary Increase | 3.05%, average, including inflation |
| Investment Rate of Return | 6.25%, net of plan expense, including inflation |

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males)

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2018

is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | CERS Hazardous & Non-Hazardous Target Allocation | Long Term Expected Nominal Return |
|---|---|---|
| Combined equity | 35% | 6.91% |
| Combined fixed income | 28% | 6.18% |
| Real return (diversified inflation strategies) | 10% | 6.13% |
| Real estate | 5% | 7.63% |
| Absolute return (diversified hedge funds) | 10% | 5.63% |
| Private equity | 10% | 8.25% |
| Cash | 2% | 1.88% |
| Total | 100% | |

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Discount rate — the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | District's Proportionate Share of Net Pension Liability | | |
|---------------|--|-----------------------|----------------------|
| | 1% Decrease 5.25% | Current Rate 6.25% | 1% Increase 7.25% |
| Discount Rate | | | |
| CERS | \$ 10,654,558 | \$ 8,447,845 | \$ 6,601,945 |

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Health Insurance – Other Post-Employment Benefits (OPEB)

Non-Hazardous OPEB Plan Description

CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

| | | |
|--------|---|--|
| Tier 1 | Participation date | Before July 1, 2003 |
| | Benefit eligibility | Recipient of a retirement allowance |
| | Percentage of member premium paid by the plan | < 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100% |
| Tier 2 | Participation date | July 1, 2003 - August 31, 2008 |
| | Benefit eligibility | Recipient of a retirement allowance with at least 120 months of service at retirement |
| | Member premium paid by the plan | \$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month. |
| Tier 3 | Participation date | On or after September 1, 2008 |
| | Benefit eligibility | Recipient of a retirement allowance with at least 180 months of service at retirement |
| | Member premium paid by the plan | \$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month. |

Required health insurance plan contributions by the employee are based on the tier:

| | Required Contribution |
|--------|-----------------------|
| Tier 1 | None |
| Tier 2 | 1% |
| Tier 3 | 1% |

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the District were \$169,843 for non-hazardous duty employees for the year ended June 30, 2018.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Notes to the Financial Statements****June 30, 2018****OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2017, the District's proportion of the non-hazardous plan was 0.14433%, which was 0.0016% higher than the District's proportion at the previous measurement date.

For the year ended June 30, 2018, the District recognized an OPEB expense of \$142,583. In addition, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Non-Hazardous | |
|--|---------------------|---------------------|
| | Deferred Outflow | Deferred Inflow |
| Differences between expected and actual experience | \$ - | \$ (8,059) |
| Net difference between projected actual earnings on plan investments | - | (137,121) |
| Changes of assumptions | 631,336 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | (6,733) |
| Contributions subsequent to the measurement date | 169,843 | - |
| | <u>\$ 801,179</u> | <u>\$ (151,913)</u> |

The District's contributions subsequent to the measurement date, \$169,843 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Fiscal Year Ending June 30, | Net Deferral Amortization |
|--------------------------------|------------------------------|
| 2019 | \$ 82,490 |
| 2020 | 82,490 |
| 2021 | 82,490 |
| 2022 | 82,490 |
| 2023 | 116,770 |
| Thereafter | 32,693 |
| | <u>\$ 479,423</u> |

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------------|---|
| Actuarial cost method: | Entry Age Normal |
| Asset valuation method: | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization method: | Level, percent of pay |
| Amortization period: | 28 years, closed |
| Payroll growth rate: | 2.00% |
| Investment return: | 6.25% |
| Inflation | 2.30% |
| Salary increases: | 3.05%, average |
| Mortality: | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set-back 1 year for females) |
| Healthcare trend rates (Pre-65): | Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years. |
| Healthcare trend rates (Post-65): | Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years. |

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | CERS Health Insurance Target Allocation | Long Term Expected Nominal Return |
|---|---|---|
| Combined equity | 35% | 6.91% |
| Combined fixed income | 28% | 6.18% |
| Real return (diversified inflation strategies) | 10% | 6.13% |
| Real estate | 5% | 7.63% |
| Absolute return (diversified hedge funds) | 10% | 5.63% |
| Private equity | 10% | 8.25% |
| Cash | 2% | 1.88% |
| Total | 100% | 6.56% |

Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%
- For the hazardous plan, the single discount rate changed from 7.37% to 5.96%
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

Discount Rate

The discount rate used to measure the total OPEB liability was 5.84% for the non-hazardous plan and 5.96% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.84% for the non-hazardous plan and 5.96% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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| | Proportionate Share of Net OPEB Liability | | |
|-----------------------------------|---|--------------|--------------|
| | 1% Decrease | Current Rate | 1% Increase |
| Discount rate, non-hazardous | 4.84% | 5.84% | 6.84% |
| Net OPEB liability, non-hazardous | \$ 3,691,930 | \$ 2,901,446 | \$ 2,243,640 |

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | Proportionate Share of Net OPEB Liability | | |
|-----------------------------------|---|--------------|--------------|
| | 1% Decrease | Current Rate | 1% Increase |
| Healthcare cost trend rate | | | |
| Net OPEB liability, non-hazardous | \$ 2,225,559 | \$ 2,901,446 | \$ 3,780,060 |

Plan Fiduciary Net Position

Each Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The reports may be obtained in writing from:

KTRS – *Teachers Retirement System of the Commonwealth of Kentucky, 479 Versailles Road, Frankfort, KY, 40601.*

CERS – *County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.*

NOTE J – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being sent as intended and grantors' intent to continue their programs.

NOTE K – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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NOTE L – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include Workers' Compensation Insurance.

NOTE M – ACCUMULATED UNPAID SICK LEAVE

Upon retirement from the school system, an employee who meets requirements will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2018, this amount totaled \$175,419 for those employees eligible to retire, which is the amount reserved in the current year fund balance of the General Fund. Presently, the District has been notified of several retirements for fiscal year 2019, therefore the accumulated unpaid sick leave benefits is \$225,332 for current liabilities and \$150,187 for noncurrent liabilities at June 30, 2018.

NOTE N – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. The District pays annual premiums for various insurance coverages.

The District purchases unemployment insurance through KSBA Insurance; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE O – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE P – DEFICIT FUND AND OPERATING BALANCES

No fund of the District has a deficit fund balance.

The following funds have operations that resulted in a current year deficit of revenues under expenditures resulting in a corresponding reduction of fund balance:

| | |
|----------------------|----------------|
| Special Revenue Fund | (\$ 90,839) |
| Construction Fund | (\$ 3,002,129) |
| Debt Service | (\$ 903,278) |

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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NOTE Q – TRANSFER OF FUNDS

The following transfers were made during the year:

| Type | From Fund | To Fund | Purpose | Amount |
|-----------|-----------------|-----------------|---------------------|---------------------|
| Matching | General | Special Revenue | Technology Match | \$ 45,266 |
| Operating | Building | Debt Service | Debt Service | 682,116 |
| Operating | Capital Outlay | Debt Service | Debt Service | 221,162 |
| Operating | Special Revenue | Special Revenue | Title II to Title I | 129,639 |
| | | | | <u>\$ 1,078,183</u> |

NOTE R – ON-BEHALF PAYMENTS

The financial statements included payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational retirement benefits, and debt service.

| Purpose | Amount |
|-------------------------------|---------------------|
| Instruction | \$ 5,349,137 |
| Support Services | |
| Student | 127,782 |
| Instructional Staff | 161,858 |
| District Administration | 42,594 |
| School Administration | 144,820 |
| Business | 25,556 |
| Plant Operation & Maintenance | 153,339 |
| Student Transportation | 59,632 |
| Food Service | 332,234 |
| Debt Service | 897,526 |
| Technology | 62,209 |
| Total | <u>\$ 7,356,687</u> |

NOTE S – PRIOR PERIOD ADJUSTMENT

The District has recorded an adjustment to the Beginning Net Position of (\$8,315,940) at June 30, 2017. This adjustment accounts for the estimated net CERS Health Insurance Plan OPEB liability and net KTRS Medical Insurance Fund OPEB liability at June 30, 2017, and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

NOTE T – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 81 – *Irrevocable Split-Interest Agreements* – This statement is not currently applicable to the District.

Statement No. 85 – *Omnibus 2017*

Statement No. 86 – *Certain Debt Extinguishment Issues*

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| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2018 |
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NOTE U – FUTURE ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement No. 87 – *Leases* – Implementation in FY 2021

Statement No. 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement No. 89 – *Accounting for Interest Cost* – Implementation in FY 2021

NOTE V – SUBSEQUENT EVENTS

Management has evaluated events through October 10, 2018, the date on which the financial statements were available for issue. The District did not have any events subsequent to June 30, 2018 through October 10, 2018 to disclose.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - GENERAL FUND
For the Year Ended June 30, 2018

| | Budgeted Amounts | | Actual | Variance with |
|---|-------------------------|--------------------|---------------------|-----------------------|
| | Original | Final | Amounts | Final Budget - |
| Revenues | | | | Positive |
| From local sources: | | | | (Negative) |
| Taxes: Property | \$ 7,692,680 | \$ 7,692,680 | \$ 7,785,830 | \$ 93,150 |
| Motor vehicle | 528,967 | 528,967 | 657,935 | 128,968 |
| Utilities | 913,000 | 913,000 | 890,910 | (22,090) |
| Other | 25,000 | 25,000 | 23,102 | (1,898) |
| Earnings on investments | 16,000 | 16,000 | 23,718 | 7,718 |
| Other local revenues | 175,524 | 175,524 | 218,563 | 43,039 |
| Intergovernmental - state | 8,772,638 | 8,772,638 | 8,772,638 | - |
| Intergovernmental - state on behalf | - | - | 6,126,927 | 6,126,927 |
| Intergovernmental - direct federal | 135,000 | 135,000 | 178,256 | 43,256 |
| Total Revenues | 18,258,809 | 18,258,809 | 24,677,879 | 6,419,070 |
| Expenditures | | | | |
| Instruction | 12,429,730 | 12,429,730 | 15,736,959 | (3,307,229) |
| Support Services: | | | | |
| Student | 967,997 | 967,997 | 1,004,369 | (36,372) |
| Instruction staff | 650,139 | 650,139 | 779,500 | (129,361) |
| District administrative | 2,395,908 | 2,395,908 | 1,815,738 | 580,170 |
| School administrative | 1,513,352 | 1,513,352 | 1,638,221 | (124,869) |
| Business | 296,457 | 296,457 | 409,418 | (112,961) |
| Plant operation/maintenance | 4,424,011 | 4,424,011 | 1,938,770 | 2,485,241 |
| Student transportation | 403,986 | 403,986 | 568,901 | (164,915) |
| Community service activities | 52,467 | 52,467 | 46,445 | 6,022 |
| Other - Debt Service | 51,292 | 51,292 | 68,767 | (17,475) |
| Contingency | 518,741 | 518,741 | - | 518,741 |
| Total Expenditures | 23,704,080 | 23,704,080 | 24,007,088 | (303,008) |
| Excess (Deficiency) of Revenues | | | | |
| Over (Under) Expenditures | (5,445,271) | (5,445,271) | 670,791 | 6,116,062 |
| Other Financing Sources (Uses) | | | | |
| Proceeds from sale of fixed assets | 4,417 | 4,417 | 8,921 | 4,504 |
| Operating transfers in | - | - | - | - |
| Operating transfers out | (52,500) | (52,500) | (45,266) | 7,234 |
| Total Other Financing Sources (Uses) | (48,083) | (48,083) | (36,345) | 11,738 |
| Net Change in Fund Balances | (5,493,354) | (5,493,354) | 634,446 | 6,127,800 |
| Fund Balances - Beginning | 5,497,771 | 5,497,771 | 5,670,449 | 172,678 |
| Fund Balances - Ending | \$ 4,417 | \$ 4,417 | \$ 6,304,895 | \$ 6,300,478 |

The accompanying notes are an integral part of these financial statements.

| |
|---|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN-NON-HAZARDOUS Last Ten Fiscal Years |
|---|

Schedule of the District's Proportionate Share of the Net Pension Liability
County Employees' Retirement System (CERS)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|-------------|-------------|-------------|-------------|------|------|------|------|------|------|
| Proportion of net pension liability | 0.14433% | 0.14272% | 0.138134% | 0.125107% | | | | | | |
| Proportionate share of the net pension liability (asset) | \$8,447,845 | \$7,027,016 | \$5,939,111 | \$4,058,939 | | | | | | |
| Covered employee payroll in year of measurement | 3,526,016 | 3,404,609 | 3,229,192 | 2,870,153 | | | | | | |
| Share of the net pension liability (asset) as a percentage of its covered employee payroll | 239.59% | 206.40% | 183.92% | 141.42% | | | | | | |
| Plan fiduciary net position as a percentage of total pension liability | 53.30% | 55.50% | 59.97% | 66.80% | | | | | | |

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------|------------|------------|------------|------------|------|------|------|------|------|
| Contractually required contribution | \$ 523,261 | \$ 491,879 | \$ 422,827 | \$ 411,722 | \$ 394,272 | | | | | |
| Actual contribution | 523,261 | 491,879 | 422,827 | 411,722 | 394,272 | | | | | |
| Contribution deficiency (excess) | - | - | - | - | - | | | | | |
| Covered employee payroll | 3,613,679 | 3,526,016 | 3,404,609 | 3,229,192 | 2,870,153 | | | | | |
| Contributions as a percentage of covered employee payroll | 14.48% | 13.95% | 12.42% | 12.75% | 13.74% | | | | | |

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the pension expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE I in the Notes to the Financial Statements.

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN-NON-HAZARDOUS Last Ten Fiscal Years |
|--|

NOTE: This is a new schedule required by GASB 75, this schedule will be filled out over the next 10 years.

Schedule of the District's Proportionate Share of the Net OPEB Liability
County Employees' Retirement System (CERS)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|-------------|------|------|------|------|------|------|------|------|------|
| Proportion of net OPEB liability | 0.14433% | | | | | | | | | |
| Proportionate share of the net OPEB liability (asset) | \$2,901,446 | | | | | | | | | |
| Covered employee payroll in year of measurement | 3,526,016 | | | | | | | | | |
| Share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 82.29% | | | | | | | | | |
| Plan fiduciary net position as a percentage of total OPEB liability | 52.40% | | | | | | | | | |

Schedule of the District's Contributions
County Employees' Retirement System (CERS)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------|------------|------|------|------|------|------|------|------|------|
| Contractually required contribution | \$ 169,843 | \$ 166,781 | | | | | | | | |
| Actual contribution | 169,843 | 166,781 | | | | | | | | |
| Contribution deficiency (excess) | - | - | | | | | | | | |
| Covered employee payroll | 3,613,679 | 3,526,016 | | | | | | | | |
| Contributions as a percentage of covered employee payroll | 4.70% | 4.73% | | | | | | | | |

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the OPEB expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE I in the Notes to the Financial Statements.

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT OPEB PLAN - KENTUCKY TEACHERS RETIREMENT SYSTEM Last Ten Fiscal Years |
|--|

NOTE: This is a new schedule required by GASB 75, this schedule will be filled out over the next 10 years.

Schedule of the District's Proportionate Share of the Net OPEB Liability
Kentucky Teachers' Retirement System (KTRS)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|-------------|------|------|------|------|------|------|------|------|------|
| Proportion of net OPEB liability | 0.18595% | | | | | | | | | |
| Proportionate share of the net OPEB liability (asset) | \$6,630,000 | | | | | | | | | |
| Covered employee payroll in year of measurement | 11,940,070 | | | | | | | | | |
| Share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 55.53% | | | | | | | | | |
| Plan fiduciary net position as a percentage of total OPEB liability | 21.18% | | | | | | | | | |

Schedule of the District's Contributions
Kentucky Teachers' Retirement System (KTRS)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|------------|------------|------|------|------|------|------|------|------|------|
| Contractually required contribution | \$ 372,917 | \$ 358,203 | | | | | | | | |
| Actual contribution | 372,917 | 358,203 | | | | | | | | |
| Contribution deficiency (excess) | - | - | | | | | | | | |
| Covered employee payroll | 12,430,581 | 11,940,070 | | | | | | | | |
| Contributions as a percentage of covered employee payroll | 3.00% | 3.00% | | | | | | | | |

Notes to Required Supplementary Information
For the Year Ended June 30, 2018

The net OPEB liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the OPEB expense, i.e. the differences between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, the changes in proportion and differences between the District's contributions and proportionate share of contributions, and the District's contributions subsequent to the measurement date are detailed in NOTE I in the Notes to the Financial Statements.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

**Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the requirements prescribed by the Kentucky State Committee for School District Audits, the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Erlanger-Elsmere Independent School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise and the Erlanger-Elsmere Independent School District's basic financial statements, and have issued our report thereon dated October 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Erlanger-Elsmere Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Erlanger-Elsmere Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Erlanger-Elsmere Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Management is responsible for establishing and maintaining effective internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Erlanger-Elsmere Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the *Independent Auditor's Contract*.

We noted certain matters that we reported to management of the Erlanger-Elsmere Independent School District in separate letter dated October 10, 2018.

Purpose of this Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 10, 2018



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

Report on Compliance for Each Major Program

We have audited the Erlanger-Elsmere Independent School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Erlanger-Elsmere Independent School District's major federal programs for the year ended June 30, 2018. Erlanger-Elsmere Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

The Erlanger-Elsmere Independent School District's management is responsible for the compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Erlanger-Elsmere Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendices I and II to the Independent Auditor's Contract*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Erlanger-Elsmere Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Erlanger-Elsmere Independent School District's compliance.



Opinion on Each Major Federal Program

In our opinion, the Erlanger-Elsmere Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Erlanger-Elsmere Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Erlanger-Elsmere Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Erlanger-Elsmere Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 10, 2018

| |
|---|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2018 |
|---|

| U.S. Department of Education | CFDA Number | Pass Through Number | Expenditures | Totals |
|---|--|------------------------|--------------|---------------------|
| | <i>Passed through Kentucky Department of Education</i> | | | |
| Title I Grants to Local Educational Agencies | 84.01 | 310C | \$ 37,930 | |
| | 84.01 | 310D | 876,060 | |
| Total Title I Cluster | | | | \$ 913,990 |
| Grants to State (IDEA-Part B) | 84.027 | 381C | 7,036 | |
| | 84.027 | 381D | 573,109 | |
| Preschool Grants (IDEA-Preschool) | 84.173 | 380D | 16,509 | |
| Total Special Education Cluster | | | | 596,654 |
| Title IV Part A Student Support & Academic Enrichment | 84.424A | 3420002-17D | 24,102 | 24,102 |
| Improving Teacher Quality-State Grants | 84.367 | 323C | 12,483 | |
| | 84.367 | 323D | 129,639 | 142,122 |
| Curriculum Development-Bi-Lingual (Title 3) | 84.365 | 330C | 5,983 | |
| | 84.365 | 330D | 18,272 | 24,255 |
| Education for Homeless Children and Youth | 84.196 | 399C | 13,196 | |
| | 84.196 | 399D | 85,621 | 77,125 |
| | <i>Direct Payments to Local School District</i> | | | |
| Counseling Grant, Elementary Schools | 84.215E | 532C | 22,976 | |
| | 84.215E | 532D | 133,907 | 156,883 |
| Total Department of Education | | | | 1,935,131 |
| U.S. Department of Agriculture | <i>Passed through Kentucky Department of Education</i> | | | |
| National School Lunch Program (NSLP) | 10.555 | 7750002 | 999,868 | |
| School Breakfast Program (SBP) | 10.553 | 7760005 | 334,781 | |
| School Program - Snacks | 10.589 | 7690024 | 3,985 | |
| Commodities (NSLP) | 10.555 | Direct | 102,213 | |
| School Program - Summer Meals | 10.559 | 7740023 | 75,111 | |
| After School Snack Program | 10.558 | 7800016 | 22,755 | |
| School Supper Program | 10.558 | 7790021 | 316,123 | |
| Total Child Nutrition Cluster | | | | 1,854,836 |
| Total Department of Agriculture | | | | 1,854,836 |
| U.S. Department of Health and Human Services | <i>Direct Payments to Local School District</i> | | | |
| Drug Free Communities Grant | 93.276 | 5SP020094-16 | 33,688 | |
| | 93.276 | 5SP020094-17 | 80,353 | 114,041 |
| Social Security Admin. Medical Assistance Program | 93.778 | MOA | 178,256 | 178,256 |
| Total U.S. Department of Health and Human Services | | | | 292,297 |
| TOTAL FEDERAL FINANCIAL AWARDS | | | | \$ 4,082,264 |

| |
|---|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Schedule of Expenditures of Federal Awards June 30, 2018 |
|---|

NOTE A – BASIS OF PRESENTATION

The accompanying of schedule of expenditures of federal awards includes the federal grant activity of the Erlanger/Elsmere School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities used in the amount of \$ 102,213. These commodities were used to supplement the National School Lunch Program.

NOTE C – DE MINIMUS INDIRECT COST RATE

The District has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2018 |
|--|

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- | | | |
|--|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> x </u> No |
| • Significant deficiencies identified? | <u> </u> Yes | <u> x </u> None reported |

Noncompliance material to financial statements noted

 Yes x No

Federal Awards

Internal Control Over Major Programs:

- | | | |
|--|-------------------|----------------------------|
| • Material weakness(es) identified? | <u> </u> Yes | <u> x </u> No |
| • Significant deficiencies identified? | <u> </u> Yes | <u> x </u> None reported |

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200. 516(a)

 Yes x No

Identification of major programs:

Federal Program or Cluster

CFDA Numbers

| | |
|-----------------------------------|----------------|
| ----- | ----- |
| Special Education Cluster | 84.027; 84.173 |
| Child and Adult Food Card Program | 10.558 |

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 x Yes No

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reported

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Schedule of Prior Year Audit Findings Year Ended June 30, 2018 |
|--|

NONE

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS June 30, 2018 |
|--|

| | FSPK Fund | SEEK Capital Outlay Fund | Debt Service Fund | Total Nonmajor Governmental Funds |
|---|-------------------|-----------------------------------|-------------------------|--|
| Assets and Resources | | | | |
| Cash and cash equivalents | \$ 659,515 | \$ - | \$ - | \$ 659,515 |
| Total Assets and Resources | <u>\$ 659,515</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 659,515</u> |
| Liabilities and Fund Balances: | | | | |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances | | | | |
| Restricted for | | | | |
| Debt service - escrow | 362,581 | - | - | 362,581 |
| Future construction | 296,934 | - | - | 296,934 |
| Total Fund Balance | <u>659,515</u> | <u>-</u> | <u>-</u> | <u>659,515</u> |
| Total Liabilities and Fund Balance | <u>\$ 659,515</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 659,515</u> |

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
COMINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

| | FSPK Fund | SEEK Capital Outlay Fund | Debt Service Fund | Total Non-Major Governmental Funds |
|--|----------------------|---|----------------------------------|---|
| Revenues - From Local Source | | | | |
| Property taxes | \$ 486,972 | \$ - | \$ - | \$ 486,972 |
| Intergovernmental - state | 378,877 | 221,162 | 897,526 | 1,497,565 |
| Earnings on Investments | - | - | - | - |
| Total Revenues | <u>865,849</u> | <u>221,162</u> | <u>897,526</u> | <u>1,984,537</u> |
| Expenditures | | | | |
| Facilities and construction | 52,629 | - | - | 52,629 |
| Other debt service | - | - | 1,800,804 | 1,800,804 |
| Total Expenditures | <u>52,629</u> | <u>-</u> | <u>1,800,804</u> | <u>1,853,433</u> |
| Excess (deficit) of revenues over (under) expenditures | <u>813,220</u> | <u>221,162</u> | <u>(903,278)</u> | <u>131,104</u> |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | - | - | 903,278 | 903,278 |
| Operating transfers (out) | (682,116) | (221,162) | - | (903,278) |
| Total Other Financing Sources (Uses) | <u>(682,116)</u> | <u>(221,162)</u> | <u>903,278</u> | <u>-</u> |
| Excess (deficit) of revenues and other financing sources over (under) expenditures and other financing uses | <u>131,104</u> | <u>-</u> | <u>-</u> | <u>131,104</u> |
| Fund Balance, July 1, 2017 | <u>528,411</u> | <u>-</u> | <u>-</u> | <u>528,411</u> |
| Fund Balance, June 30, 2018 | <u>\$ 659,515</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 659,515</u> |

| |
|--|
| ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT STATEMENT OF RECEIPTS AND DISBURSEMENTS - SCHOOL ACTIVITY FUNDS For the Year Ended June 30, 2018 |
|--|

| Lloyd Memorial High School | Cash Balance June 30, 2017 | Receipts | Disbursements | Cash Balance June 30, 2018 |
|-----------------------------------|---------------------------------------|-----------------|----------------------|---------------------------------------|
| Senior Class | \$ - | \$ 1,259 | \$ 1,259 | \$ - |
| Drama | 1,062 | 34 | 430 | 666 |
| Junior Class | 8,521 | 13,147 | 10,972 | 10,696 |
| Sophomore Class | 834 | 69 | 413 | 490 |
| Art Fees | 166 | 580 | 508 | 238 |
| Athletic Department | 27,554 | 50,053 | 57,939 | 19,668 |
| Book Fees | 1,082 | 4,469 | 4,491 | 1,060 |
| Tennis | 5,209 | 2,611 | 1,765 | 6,055 |
| Special Olympics | 598 | 770 | 584 | 784 |
| Tatler | 388 | 230 | 355 | 263 |
| Ensor Scholarship | 26,588 | - | 500 | 26,088 |
| Library | 563 | 60 | 98 | 525 |
| General Fund | 2,628 | 734 | 3,252 | 109 |
| Grants/Scholarships | 7,650 | 4,250 | 1,350 | 10,550 |
| National Honor Society | 698 | - | - | 698 |
| Baseball | 554 | 4,556 | 3,500 | 1,610 |
| Cross Country | 600 | 2,665 | 3,218 | 47 |
| Java/Jugg/Café | 702 | 10 | 40 | 672 |
| Spanish Club | 626 | 622 | 863 | 385 |
| Veterans Wall Memorial | 499 | - | - | 499 |
| Student Council | 4,418 | 3,866 | 2,885 | 5,399 |
| Science Fees | 682 | 1,197 | 910 | 969 |
| Advanced Placement | 848 | - | - | 848 |
| Bowling Club | 1,153 | 510 | 1,110 | 553 |
| Yearbook | 5,316 | 1,737 | 1,002 | 6,051 |
| Debbie McKinley-Memorial | 2,077 | - | 200 | 1,877 |
| Cheerleaders | - | 2,446 | 2,446 | (0) |
| Office | 1,636 | 2,876 | 3,878 | 634 |
| Literature Fee | - | 900 | 550 | 350 |
| Smith Scholarship | 5,646 | 10,993 | 8,519 | 8,121 |
| Gold Rush | 51 | 569 | 566 | 54 |
| Concessions/Ad | 65 | 16,527 | 16,592 | (0) |
| Archery Club | 1,678 | 150 | 980 | 848 |
| College Tuition | - | 4,465 | 4,465 | (0) |
| Band | - | - | - | - |
| Energy Club | 501 | 6,520 | 6,831 | 189 |
| Musical | 2,840 | 3,713 | 3,105 | 3,447 |
| Uniforms/Ad | - | 10,000 | 10,000 | - |
| Page Sub Total | \$ 113,433 | \$ 152,587 | \$ 155,577 | \$ 110,443 |

Continued on Next Page

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS AND DISBURSEMENTS -
SCHOOL ACTIVITY FUNDS - Continued
For the Year Ended June 30, 2018

| | Cash Balance June 30, 2017 | Receipts | Disbursements | Cash Balance June 30, 2018 |
|---------------------------------|-------------------------------|-------------------|-------------------|-------------------------------|
| Sub-Total Carried Forward | \$ 113,433 | \$ 152,587 | \$ 155,577 | \$ 110,443 |
| Boys Basketball | 812 | 11,278 | 10,768 | 1,322 |
| Football | 8,942 | 16,501 | 21,154 | 4,289 |
| Girls Basketball | 5,934 | 10,707 | 13,890 | 2,751 |
| Track | - | - | - | - |
| Chorus | 7,758 | 19,691 | 25,622 | 1,827 |
| Softball | 2,573 | 3,598 | 4,604 | 1,567 |
| Volley Ball | 4,231 | 7,398 | 6,721 | 4,908 |
| Transportation | 103 | 10,000 | 8,118 | 1,985 |
| Freshman Class | 109 | 2,962 | 2,739 | 332 |
| Playhouse | - | - | - | - |
| Community Based Instruction | 67 | 600 | 350 | 317 |
| Field Trips | - | - | - | - |
| Pepsi | 4,134 | - | - | 4,134 |
| Academic Team | - | 173 | 93 | 80 |
| Gaming Account | 2,930 | - | 104 | 2,826 |
| Maker Space Program | - | 2,000 | - | 2,000 |
| PBIS | - | 329 | 282 | 47 |
| Rosella Wyland Scholarship | 17,047 | - | 1,000 | 16,047 |
| SubTotal | 168,073 | 237,824 | 251,022 | 154,875 |
| Less interfund transfer | - | (19,529) | (19,529) | - |
| Total High School | 168,073 | 218,295 | 231,493 | 154,875 |
| Middle School | | | | |
| Tichenor | 37,771 | 57,380 | 59,339 | 35,812 |
| Total Middle School | 37,771 | 57,380 | 59,339 | 35,812 |
| Elementary Schools | | | | |
| Dorothy Howell | 5,677 | 12,529 | 11,879 | 6,327 |
| Arnett | 17,523 | 22,714 | 19,897 | 20,340 |
| John W. Miles | 1,890 | 21,101 | 19,337 | 3,654 |
| A.J. Lindeman | 3,108 | 19,456 | 18,373 | 4,191 |
| Total Elementary Schools | 28,198 | 75,801 | 69,486 | 34,513 |
| Total All Schools | \$ 234,042 | \$ 351,476 | \$ 360,318 | \$ 225,200 |

**Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

We have audited the financial statements of the Erlanger-Elsmere Independent School District for the year ended June 30, 2018, and have issued our report thereon dated October 10, 2018. As part of our audit, we made a study and evaluation of the District's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and valuation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of the Erlanger-Elsmere Independent School District is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors, or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods are subject to risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting control. Accordingly, we do not express an opinion of the system of internal accounting control of the Erlanger-Elsmere Independent School District taken as a whole. Our study and evaluation disclosed no condition that I believe to be a material weakness.



Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 10, 2018

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Management Letter Comments

June 30, 2018

Current Year Comments:

Audit Adjustment for Required GASB 68 and GASB 75 Reporting

18-01 – The District Finance Director prepared the draft financial statements, but did not prepare the required adjustments for GASB 68 and GASB 75. The Finance Director also did not update the related required disclosures or the required supplementary information.

However, the Finance Director did review, accept, and enter adjustments proposed by the auditor for the District's net pension and OPEB liabilities, deferred outflows and inflows of resources and associated changes in pension and OPEB expense; and booked the net pension and OPEB liabilities, deferred outflows and inflows of resources, and changes in pension and OPEB expense for the proprietary fund as required by GASB 68 and GASB 75.

Management Response: The District's Finance Director commissioned assistance from the auditor to prepare this new and changing disclosure requirements for State Pension plans. Resources are limited at the district to help gain the expertise that is required to complete this complex disclosure.

School Activity Funds – Bank Statement Reconciliations

18-02 – School activity fund bank statements are required to be opened and reviewed by the principal, signed, and dated. The bank statements should be passed to the financial assistant for reconciliation. After reconciliation, the principal should sign and date the reconciliation. We noted several instances, across several schools, where either one or both of these steps were not accomplished.

Management Response: The District hosted red book training for all staff involved in school activity fund accounting in September 2018. We are working to correct this bank statement review process.

School Activity Funds – Record Retention Policy

18-03 – Record retention policies for school activity funds should follow District policy; generally three years. We noted several instances where records are being retained significantly longer than required by policy.

Management Response: District wide we are improving our compliance with the State retention policy. The board office recently purged many old records in efforts to improve compliance. All schools are aware of retention records and will also work to improve compliance.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Management Letter Comments

June 30, 2018

School Activity Funds – Invoices

18-04 – School activity fund invoices should be marked/stamped “Paid” and include both a date and a check number on the invoice. We noted several instances where this was not being performed consistently.

Management Response: *The District hosted red book training for all staff involved in school activity fund accounting in September 2018. We will monitor this control step of notating payment on applicable invoices in effort to improve compliance.*

Allocation of District-Wide Expenses across Functions

18-05 – The District has several “District-wide” expenses that are being reported in one functional area, such as “District Administrative”. The District should make an effort to allocate these District-wide expenses across all relevant functions based on each function's proportionate share.

Management Response: *The district will be implementing new requirements detailed in HB 200 and reported in December 2018 to the State. Expenditures coded to District Wide accounts will be reallocated to school specific functional expenditure accounts where ever possible.*

Segregation of Duties

18-06 Due to the size of the District, proper segregation of duties is not always possible. Minor risks of intentional financial statement misstatement due to improperly segregated record keeping and reconciliation functions do exist. However, the District's board, through thorough review of the District's monthly financial statements, provides a compensating control over financial reporting. We encourage to District's board to continue to perform their fiduciary responsibility through the following procedures:

- 1) Closely review the District Treasurer's monthly report.
- 2) Closely review and approve all disbursements.
- 3) Continue to monitor all significant variations between the approved budget and the actual cash receipts and disbursements.

While these procedures will not entirely eliminate the potential risk of misstatement, their implementation will reduce the risk to a tolerable level in the current circumstances.

Auditor Comment: *Due to the size of the District and financial constraints, this comment has been repeated to remind the board of the importance of their fiduciary responsibility to closely monitor the District disbursements and the monthly Treasurer's report.*

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Management Letter Comments

June 30, 2018

Prior Year Comments:

Accounting for GASB 68 Pensions

17-01, 16-01 – The District does not calculate the GASB 68 net pension liability, the deferred outflows and inflows of resources, the pension expense, and related disclosures required by GASB 68. The audit firm has calculated these amounts and submitted the amounts and disclosures to District management for approval and inclusion into the financial statements. To maintain appropriate control over District financial statement reporting, we highly recommend that the District, or their consulting accountant, calculate amounts and prepare the disclosures referenced above and provide them to the auditor for testing.

FY 2018 Auditor Follow-Up Response: *The District's Finance Director has taken a much more active role in reviewing, approving, and adjusting, in Munis, the adjustments suggested by the auditor.*